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Business in Nebraska

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THE RECURRING DEBATE ON NEBRASKA'S BANKING STRUCTURE

For two years running, proposed banking legislation has been the center of considerable controversy in the Nebraska legislature. Most of this controversy has come from within the banking industry, with little or no input from the general public. This, in part, is because banking jargon and banking issues are generally unfamiliar to the public. This article will attempt to explain some of this jargon, along with some of the major issues and potential legislation which will no doubt resurface in the next session.

ORGANIZATIONAL STRUCTURE OF BANKING

The organizational structure of banking generally refers to the geographic aspect of banking institutions and is often classified into three general types: unit banking, branch banking, and group banking. Unit banking, in its strictest sense, refers to the situation where banks may conduct business from only one office. Many states which restrict banks to unit operations, however, do allow a certain number of remote-site, limited-service facilities within the home-office city. Normally, these facilities are limited to deposit and withdrawal functions, while the main office offers the full array of banking services.

In other states banks are allowed to establish several full-service branch offices apart from the main office. In states which allow branch banking, the degree of branching varies widely. Some states allow statewide branching, while others limit branching to within the home office county. For example, in California, where statewide branching is allowed, 257 banks have 4,064 branches, of which well over 2,000 are located in counties noncontiguous with the home office. On the other hand, in Kentucky, a limited branching state, 343 banks have 694 branch offices, of which all but 4 are located in the home-office county.

Multibank holding companies, often referred to as group banking, are another method of expanding the geographic market area. Although bank holding companies had made their appearance by the turn of this century, it was not a major organizational form until the late 1920s. A major impetus for its gained popularity at the time was its usefulness as a way of circumventing branching restrictions which many states were adopting. Rather than a single bank establishing several branches, a multibank holding company is a corporation which owns several subsidiary banks with each bank maintaining its own identity. Although each bank maintains its own identity, the system of banks within the holding company may be run much as a branch system if the parent corporation so desires. The 1956 Bank Holding Company Act, as amended, limits the commercial activities of corporations which acquire banks to those which are closely related to the banking business. This restriction was made to preserve the historic separation of banking from other commercial interests.

Chain banking is another organizational structure which falls under the heading of group banking. Rather than a corporation owning or controlling several subsidiary banks, chain banking describes a situation where an individual or group of individuals owns or controls several banks. Again, as in the case of multibank holding companies, the individual banks within the chain system maintain their own identity, although the system may be operated much as a branch bank.

Decisions concerning the organizational structure of banking are essentially left to the states. Prior to 1927, national banks had been denied branching privileges. The McFadden Act of 1927, along with the National Banking Act of 1933, gave national banks the same branching privileges as were accorded to state banks in their respective states. In essence, national banks were put on a competitive equality with state banks by allowing them to branch in those states which allowed branching, while preserving the state's authority in branching decisions. Like branching, the decision to legalize multibank holding companies (MBHCs) is left to the individual states.

Of course various combinations of the aforementioned structures may exist in different states. In states where both branch banking and MBHCs are allowed, holding companies may own several banks while the banks themselves may operate several branches. This picture may be further complicated by chain linkages among banks and bank holding companies.

In other states such as Nebraska, a unit banking state, the organizational structure is more straightforward. The Nebraska legislature passed legislation prohibiting branch banking in 1927 and multibank holding companies in 1963, although one MBHC was grandfathered under the 1963 law and operates today. Under current law in Nebraska, one-bank holding companies (OBHCs) are allowed (corporations which own only one bank but may engage in other commerce closely related to banking), and banks may operate two limited service auxiliary facilities within the home-office city. Because these auxiliary facilities may not perform the full range of banking functions, they are generally not considered branch banks.

Although Nebraska is referred to as a unit banking state, chain banking is quite common. The exact extent of chain banking, however, is difficult to measure since little public information on private stock ownership is available. Nevertheless, a fairly recent study of chain banking concluded that 23 percent of all Nebraska banks were members of some chain system.[1] Because this study used very stringent definitions concerning (continued on page 2)

(continued from page 1) what constitutes chain membership, the actual percent of chain membership is almost certain to be higher.

THE ISSUES[2]

Most arguments for and against branch banking are also common to the debate on MBHCs. Because there are few restrictions on chain banking and because of their obscure nature, little debate concerning their desirability has occurred. Nevertheless, to the extent that chains may be operated much as branch systems or MBHCs, most of the same arguments apply to chains as well.

Organizational Structure and Operating Efficiency

Proponents of branch banking or MBHCs often claim that such organizations are more efficient than strictly unit banks. Opponents either argue that this is not the case, or that other adverse consequences outweigh any claims of efficiency.

Conceptually, one might argue that branch banks and MBHCs are able to consolidate certain key production processes (for example, management and computer processing), and thereby incur lower per-unit operating costs than a comparable number of unit banks. On the other hand, beyond a certain point, as the size or geographic dispersion of a banking organization increases, the problems of organizing and coordinating the organization may increase, thereby reducing the efficiency of the organization.

The consensus of most studies has been that once some minimum office size is reached, additional operating efficiencies resulting from increased office size or different organizational structures are small. A recent *Report of the President* concluded that small unit banks of less than $15-20 million in deposits had generally lower operating costs than similar sized offices associated with branches or MBHCs. For office sizes larger than this, association with a branch system or an MBHC results in lower per-unit costs, although the advantages are generally small. It is worth pointing out, however, that various factors other than size and organizational structure are involved in determining per-unit costs of individual banks, and that operating costs may vary considerably even between banks of similar size and organizational structure.

Organizational Structure, Concentration, and Competition

The question of the effects of organizational structure on banking concentration (percent of total deposits held by a certain number of banks) and competition in banking markets has important public policy implications. Not only may increased concentration in banking markets result in higher prices and a reduced quantity and quality of banking services, but increased concentration levels at the state and national level may result in inordinate influence over political as well as other social institutions.

In Table 1, a comparison of three-firm and five-firm concentration levels (percent of deposits held by the three largest and five largest banks) for the various states shows that statewide concentration levels are indeed considerably higher in states which allow statewide branching. It is often pointed out, however, that markets in which banks effectively compete are normally much smaller than entire states, and that concentration ratios of smaller geographic areas are more appropriate indicators of market competition. Looking at Table 1 again, concentration ratios for Standard Metropolitan Statistical Areas (SMSAs) in the three groups of states are shown. SMSAs are normally judged to be good approximations of areas within which banks may actively compete. Although the differences between the grouped states are somewhat smaller, concentration ratios are still considerably higher in statewide branching states.

These concentration ratios, however, should be viewed with some caution. First, these data do not take into consideration other systematic differences between states, such as population, income, and rate of growth, which may account for some of the differences in concentration. Second, many of the branching states permitted branching prior to the 1960 Bank Merger Act which made branching by acquisition of an existing bank more difficult. It is not clear that the easing of branching restrictions at this time would result in the same increase in concentration which took place prior to 1960. The result of adopting branch banking at this time would most likely lead to an increase in statewide concentration, with the effects on SMSA or nonmetropolitan county levels being much less certain. The introduction of MBHCs as opposed to branching would likely result in higher concentration levels because of the tendency on the part of bank regulatory authorities to approve new branch charters over new bank charters in areas where the economic support for an additional bank may be marginal. In addition, because the establishment of a new bank is more costly than a new branch, MBHC expansion would be more likely to take the acquisition route rather than establishing new banks.

Concentration ratios, however, may not always be a good indication of the amount of effective competition within local banking markets. According to the theory of "potential competition," banks which are threatened by the entry of a new bank into the local banking market may behave in a competitive manner even though they are not currently facing a competitor. Many argue that branching states which allow *de novo* entry (entry by the establishment of a new branch rather than acquiring an existing bank) have a greater degree of "potential competition" than exists in unit banking states, and that concentration ratios are therefore misleading. Studies of bank performance give some credence to this argument. Studies generally show that banks in statewide branching states pay higher interest rates on time and savings deposits, have a higher loan output, and earn lower profits than similar banks in unit banking states. At the same time, comparisons of interest rates charged on loans have produced mixed results, and service charges on checking accounts have generally

Table 1
STATE AND SMSA CONCENTRATION RATIOS FOR COMMERCIAL BANKS BY STATE BRANCHING LAWS

	No. of States[1]	State Concentration Ratios		SMSA Concentration Ratios	
		3-Firm	5-Firm	3-Firm	5-Firm
Statewide Branching	22	58.5	72.9	67.5	80.3
Limited Branching	17	28.4	37.7	62.5	76.3
Unit Banking	12	30.0	38.0	49.4	60.2

[1] The District of Columbia is included in these data.

Source: U.S. Department of the Treasury, *Geographic Restrictions on Commercial Banking in the United States: The Report of the President*, January, 1981, pp. 46-48.

been found to be higher in branching systems.

The long-term effects of higher statewide concentration ratios, however, should not be quickly dismissed. Although traditional market concentration studies have tended to focus on local market areas, the theory of "mutual forbearance" holds that larger firms, which have numerous local market contacts with one another, may over an extended period of time develop an unwritten code of conduct which limits price and non-price competition. In effect, banks which meet in several markets may come to recognize that vigorous competition in one market may invite retaliation in another market, and that the risk which this entails is simply not worth the gain in market share that may result. This code of "mutual forbearance," however, may be especially difficult to maintain where new banking firms are entering the market, or where market conditions are changing rapidly.

Another reason why statewide concentration ratios are important is that they give some indication of the possible influence which financial institutions may have over other social institutions. Although higher statewide concentration may not translate into less competitive behavior at the local market level, it may result in a disproportionate share of influence over bank regulatory agencies, as well as political and other social institutions.

Organizational Structure and the Availability of Banking Services

Advocates of branch banking and MBHCs often contend that such systems lead to a greater number of services at more convenient locations than would otherwise exist, especially in rural areas. Opponents argue that such services are often superficial and can be provided through correspondent system in any event.

The evidence from other states has generally shown that with the adoption of branch banking the number of banking organizations has declined, while the number of bank offices has increased on a statewide basis. Evidence for local areas, however, is more mixed. Nevertheless, the bulk of evidence would seem to suggest that in SMSAs the number of banks would remain fairly stable, whereas the number of bank offices would increase. Nonmetropolitan areas in many instances may experience both an increase in the number of banks and bank offices. As was mentioned earlier, bank regulatory authorities tend to approve new branch charters rather than new bank charters in areas which may only marginally support a new bank. Many nonmetropolitan areas may, therefore, experience the entry of a new branch competing with the existing bank(s), whereas in the absence of branching no such entry would occur. Much of this, however, is dependent on the type of branching permitted by state law (*de novo* branching and/or branching by acquisition, and statewide or limited branching). It should also be pointed out that the higher number of bank offices attributable to branching would not likely be a major benefit derived from MBHCs.

The range of services *directly* available to bank customers, especially in nonmetropolitan areas, would almost certainly increase with the adoption of branch banking or MBHCs. Larger institutions which are better able to provide a wide range of services would be allowed to establish branches or affiliates in areas previously served only by smaller institutions. These branches or affiliates normally bring with them the full range of services offered by the parent bank. The point that such services are often superficial or that the same services can be provided through the correspondent system, however, is well taken. Most studies show, for example, that the increasing loan demands in agriculture have been handled quite well through the use of participation loans with correspondent banks.[3]

Organizational Structure and the Mobility of Funds

One of the long-standing arguments against branch banking or MBHCs is that such organizations are less sensitive to rural needs or the needs of some urban neighborhoods because of their remote attachment to the community. Further, it is argued that rural and some urban affiliates or branches are used to siphon funds from these areas in order to lend to more preferred corporate customers or more profitable consumer loan customers. This results, it is often claimed, in depressed economic conditions for certain rural areas and urban neighborhoods and/or insufficient funds for small farms and businesses. Branching or MBHC supporters argue, however, that such organizations do not systematically discriminate against certain areas, but rather respond to changing loan demands wherever they may be. It is often claimed that one of the advantages of branch systems or MBHCs is that they are better able to react to changing loan demands, and channel funds to those areas where demand is the greatest.

While there has been some evidence in past studies that funds are indeed more mobile in multibank or multioffice systems, studies which attempt to determine if they are more apt to siphon funds systematically from rural areas or certain urban neighborhoods have produced mixed results. It should be pointed out, however, that rural unit banks also have the opportunity to send funds outside of the local community through the sale of excess bank reserves or by participating in loans originated by banks outside the local community. In addition, recent developments in communication, information, and computer technologies have further enhanced these opportunities, and have likely reduced the importance of organizational structure as a factor in the movement of funds.

The question of the desirability of a greater mobility of funds is certainly debatable. The traditional concept of economic efficiency, in the sense of allocating resources so as to maximize consumer satisfaction, requires that funds be allowed to flow where they earn the highest return. Nevertheless, many would argue that this concept of economic welfare is extremely narrow and that, among other things, it ignores such equity considerations as the local needs of small and beginning farms and businesses.

POTENTIAL LEGISLATION

Lesiglation to allow some form of branch banking and/or multibank holding companies in Nebraska has been introduced in the last two legislative sessions. The bill given greatest attention has been a combination MBHC/branch banking proposal. Similar legislation will almost certainly be proposed in the next legislative session.

The combination bill would have eventually allowed banks to establish up to four full-service branch banks within the corporate limits of the home-office city. In addition to branching, the same bill would have also allowed the establishment of MBHCs. Under the proposed legislation, bank holding companies could have owned or controlled up to three banks prior to January, 1984, and one additional bank each year thereafter up to a maximum of nine banks. In addition to the limit on the number of banks, an MBHC would have been prohibited from owning or controlling an additional bank if the combined (continued on page 6)

Review and Outlook

Nebraska's net physical volume index increased 0.2% March-April 1982. The increase in the index reflects a sizable increase in April's cash farm marketing receipts and considerable improvement in April's retail sales.

The agriculture component of the net physical volume index calculated by the Bureau of Business Research was up 5.3% on a month-to-month basis. Cash farm marketing receipts in Nebraska were estimated at $647 million, up 28% on a seasonally adjusted basis, and nearly double April 1981 marketing receipts of $316.4 million. On a month-to-month basis, Nebraska's April cash farm marketing receipts were sharply higher when compared with the United States.

Prices received by Nebraska agriculture producers increased 1.2% March-April 1982. Despite this monthly gain, prices received in April 1982 were 4.9% below April 1981.

The nonagriculture segments of Nebraska's economy were down, according to the Bureau's net physical volume index. For all sectors excluding agriculture, the index was down -0.7% on a month-to-month basis. Construction recorded another decrease in April, declining 5.2%. Construction index is at its lowest point in more than three years.

Contributing to the decline in Nebraska's nonagriculture sector, the manufacturing index decreased -3.5% on a month-to-month basis. This is the largest monthly decline. (continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

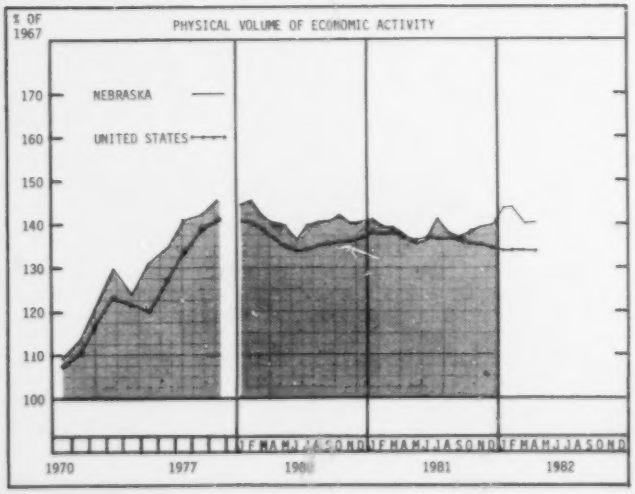
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

April 1982	Current Month as Percent of Same Month Previous Year		1982 Year to Date as Percent of 1981 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	105.8	102.7	105.7	103.5
Agricultural	174.8	118.2	141.4	109.2
Nonagricultural	98.6	102.3	101.0	103.4
Construction	65.0	94.4	69.9	92.3
Manufacturing	88.2	93.9	95.2	97.4
Distributive	102.4	105.7	103.4	106.2
Government	108.1	107.4	109.0	107.5
Physical Volume	101.9	97.6	101.7	97.6
Agricultural	183.9	125.0	152.1	117.6
Nonagricultural	93.4	96.7	95.2	97.0
Construction	62.1	90.2	67.1	88.6
Manufacturing	86.6	92.1	92.6	93.8
Distributive	96.1	99.2	96.3	98.9
Government	101.5	98.2	102.0	98.1

2. CHANGE FROM 1967

	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	377.4	360.0
Agricultural	450.2	387.9
Nonagricultural	366.2	359.1
Construction	201.1	310.0
Manufacturing	337.2	297.0
Distributive	390.9	399.4
Government	382.7	354.5
Physical Volume	140.4	134.3
Agricultural	180.1	158.3
Nonagricultural	134.2	133.5
Construction	59.9	92.3
Manufacturing	141.6	121.8
Distributive	137.5	140.5
Government	146.1	147.7

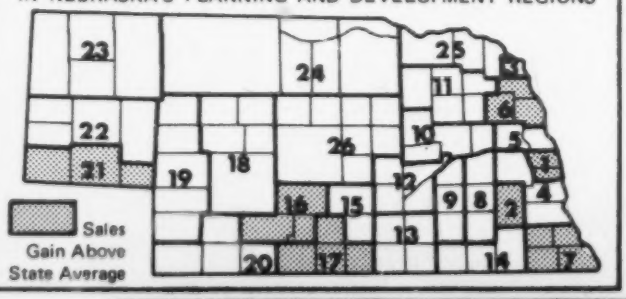


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)

Region Number and City	City Sales*	Sales in Region*	
	April 1982 as percent of April 1982	April 1982 as percent of April 1981	Year to date'82 as percent of Year to date'81
The State	105.5	104.9	95.4
1 Omaha	109.3	109.3	99.1
Bellevue	125.4		
2 Lincoln	111.0	109.5	96.3
3 So. Sioux City	97.4	96.4	90.3
4 Nebraska City	107.3	106.1	91.8
5 Fremont	106.5	107.8	92.3
Blair	113.4		
6 West Point	119.8	105.9	96.2
7 Falls City	114.8	115.6	96.5
8 Seward	112.8	108.6	92.6
9 York	121.9	106.5	92.7
10 Columbus	105.6	101.9	90.4
11 Norfolk	100.5	99.9	92.1
Wayne	93.1		
12 Grand Island	97.6	96.6	87.5
13 Hastings	83.5	90.1	87.4
14 Beatrice	101.8	105.0	90.7
Fairbury	110.3		
15 Kearney	105.6	104.3	94.4
16 Lexington	101.4	106.4	96.5
17 Holdrege	118.6	114.1	95.4
18 North Platte	106.0	101.2	87.3
19 Ogallala	90.8	88.8	89.1
20 McCook	106.2	103.7	92.3
21 Sidney	89.8	92.2	95.7
Kimball	90.4		
22 Scottsbluff/Gering	99.7	96.5	89.4
23 Alliance	81.7	85.5	88.3
Chadron	77.0		
24 O'Neill	89.5	85.0	88.2
25 Hartington	111.9	99.5	92.5
26 Broken Bow	90.2	92.9	89.6

*State totals include sales not allocated to cities or regions. The year-to-year ratios for city and region sales may be misleading because of changes in the portion of unallocated sales. Region totals include, and city totals exclude, motor vehicle sales. Sales are those on which sales taxes are collected by retailers located in the state. Compiled from data provided by Nebraska Department of Revenue.

1982 YEAR TO DATE AS PERCENT OF 1981 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



BEST AVAILABLE COPY

(continued from page 4) The manufacturing component of the net physical volume index stands at 141.6 (1967 = 100). The index is down 13% from one year previous. The April 1982 reading is the lowest reading of this component in more than three years.

The distributive trade component of the index was the only nonagriculture sector recording an increase. Distributive trade advanced 0.4% March-April 1982. The index stands at 137.5 (1967 = 100), which compares with the reading of 143.1 in April 1981 and 141.6 April 1980. Strong April retail sales contributed to the increase in the distributive trade component of the index.

The government component of the Bureau's index declined -0.6% on a month-to-month basis. The government component of the index was estimated at 146.1 April 1982, and compares with a reading of 144.0 one year previous.

Nebraska's retail sales totaled $835 million in April 1982, up from $771 million in April 1981. Retail sales were 8.3% above the year-previous level, making April the first month of 1982 in which sales were higher on a dollar volume basis than in 1981.

Inflation has slowed considerably in the past 24 months. The commodity component of the consumer price index reflects this decline. It advanced 3.2% on a year-to-year basis. When unadjusted dollar volume retail sales are deflated for price increases, retail sales were up 4.9%, the first increase in real retail sales in 1982.

Nonmotor vehicle sales were stronger than motor vehicle sales. On an unadjusted basis, nonmotor vehicle sales were up 8.9%, or 5.5% when adjusted for price increases. Nonmotor vehicle sales totaled $751 million in April 1982, compared with $690 million one year ago.

Motor vehicle sales were up 2.9% on an unadjusted basis. When adjustments are made for price changes, motor vehicle sales were down 0.4%. Motor vehicle sales totaled $83.2 million in April 1982, compared with $80.9 million one year previous.

April's gain in retail sales was widely dispersed across the state. Of the 32 cities for which retail sales are reported, 20 had price-adjusted increases in retail sales. This was the first month in many months in which a majority of Nebraska cities recorded an increase in real retail sales.

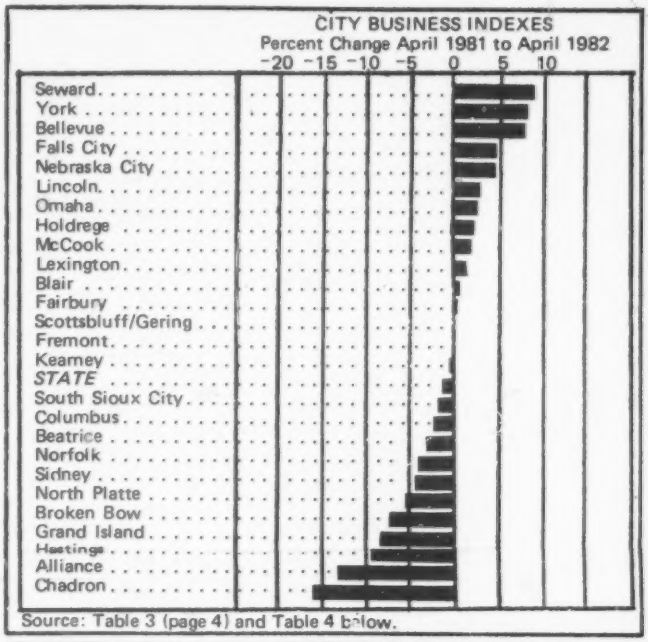
Cities recording an increase in real (price-adjusted) retail sales of more than 10% include Bellevue, 25.4%; Lincoln, 11.0%; Blair, 13.4%; West Point, 19.8%; Falls City, 14.8%; Seward, 12.8%; York, 21.9%; Fairbury, 10.3%; Holdrege, 18.6%; and Hartington, 11.9%. The early 1982 increase in livestock prices was probably a contributing factor to April's relatively "good" retail sales.

The city business indexes reflect the strength in retail sales. Several cities recording gains in these indexes reported higher April 1982 retail sales. D. E. P.

5. PRICE INDEXES

April 1982	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	284.3	106.6	107.4
Commodity component	258.9	103.2	104.2
Wholesale Prices	297.9	101.5	105.0
Agricultural Prices			
United States	245.0	94.6	92.8
Nebraska	250.0	95.1	93.1

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.



Source: Table 3 (page 4) and Table 4 below.

4. APRIL CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	99.2	56.6	124.3
Alliance	92.5	68.8	108.3
Beatrice	101.0	41.0	115.2
Bellevue	100.2	38.7	133.0
Blair	97.5	39.7	118.8
Broken Bow	99.5	61.1	116.6
Chadron	101.8	28.2	122.5
Columbus	96.3	58.3	139.1
Fairbury	99.5	42.0	125.2
Falls City	99.8	61.5	103.0
Fremont	105.1	34.2	97.8*
Grand Island	95.6	32.1	153.9
Hastings	100.7	57.0	104.4
Holdrege	98.4	31.1	126.1
Kearney	99.6	60.6	125.1
Lexington	102.5	92.7	114.5
Lincoln	99.7	60.8	121.3
McCook	92.1	164.7	117.4
Nebraska City	96.2	169.9	111.5
Norfolk	97.1	53.9	111.5
North Platte	98.4	23.4	114.8
Omaha	100.2	67.6	125.7
Scottsbluff/Gering	102.4	82.4	110.2
Seward	97.0	229.6	159.0
Sidney	98.8	118.0	116.8
So. Sioux City	99.7	100.5	130.5
York	98.3	66.1	140.3

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

(continued from page 3) deposits of the banks would be greater than 10 percent of the state's total deposits in both commercial banks and S & Ls. The inclusion of S & Ls in this formula likely reflects the feeling that recent regulatory changes in the financial industry will result in more direct competition between S & Ls and commercial banks.

Another bill receiving less attention would have allowed statewide branching. This proposed legislation would have allowed (with regulatory approval) a bank to establish a branch anywhere in the state by acquiring an existing bank, and the building of a new branch only in cities or villages where no bank presently exists. Two exceptions to this were that no branch could be established in a city or village where there was only one bank or where the population was less than 2,500 persons.

The limits on the number of banks or the percent of total state deposits which could be controlled by an MBHC under the MBHC/branch banking bill is understandable, since the normal route of MBHC expansion is via the acquisition of existing banks. The reasons for this are the greater uncertainty involved with establishing a new bank versus acquiring an existing bank, and the inclination on the part of regulatory authorities to deny a *de novo* expansion in communities which may have only marginal support for a new bank. It is often pointed out that branching has a distinct advantage over MBHCs in this respect. Not only are new branches less costly than establishing an entire bank, but regulatory authorities are more prone to approve a new branch charter. Because of this, branching is normally believed to result in fewer acquisitions and a greater degree of competition than would result under MBHCs.

Regardless of one's feelings toward the branching or MBHC issue, one cannot help but notice that this particular advantage of branching over MBHCs is not present under the proposed branching legislation. For the most part, branching would be allowed only via the acquisition of existing banks. In terms of the public interest, if branching were adopted either by itself or in combination with MBHCs, it would certainly seem desirable to allow *de novo* branching.

LYNN NEJEZCHLEB

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[1] *Where Have All the Bankers Gone: A Report on the Decline of Independent Banking in Nebraska and Its Impact on Agricultural Lending* (Walthill, Nebraska: The Center for Rural Affairs, 1977).

[2] This discussion of the relevant issues, along with many of the studies referred to, relies heavily on Larry R. Mote, "The Perennial Issue: Branch Banking," *Business Conditions*, Federal Reserve Bank of Chicago, February, 1974; and U.S. Department of the Treasury, *Geographic Restrictions on Commercial Banking in the United States: The Report of the President*, January, 1981.

[3] Emanuel Melichar, "Impact of Banking Structure on Farm Lending: An Examination of Aggregate Data for States," in *Improved Funds Availability at Rural Banks: Report and Study Papers of the Committee on Rural Banking Problems* (Washington, D.C.: Board of Governors of the Federal Reserve System, June, 1975), pp. 102-111.

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Business in Nebraska

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College of Business Administration

NEBRASKA PERSONAL INCOME

Since 1960, the growth of personal income in Nebraska has lagged slightly behind the growth of personal income for the nation as a whole. Nebraska income grew from $2.8 billion in 1960 to $16.2 billion in 1981, a 470 percent increase, while income at the national level increased 498 percent (Table 1). In what is to follow, new and revised personal income data will be presented and analyzed over the time span covering the past two decades through 1981.

Personal income is a widely accepted measure of the economic health of a region. The major components of personal income are wages and salaries; proprietors' income; other labor income (fringe benefits, and the like), dividends and interest; rental income; and transfer payments. Taken together, the first three of the above components are often referred to as participation income, since they represent the earnings of all individuals that are producing the goods and services in a region. Adjusted for inflation, participation income is often used as a measure of real output for a region.

As a comparative measure, personal income captures differences in state economic bases. Industrial states have larger wage and salary components, states with abundant energy resources have higher levels of royalty payments, and agricultural states have greater farm income components. Personal income measures this diversity and reduces it to comparable levels.

In addition to the above applications, personal income data are used by the Bureau of Business Research to construct gross output by industrial sector for Nebraska. These output series are aggregated to form a Gross State Product series. Personal income is also the principal variable in the Bureau's annual and quarterly econometric models, which have been developed to generate forecasts of selected state economic variables.

To compensate for inflation, personal income data are expressed in 1972 dollars. In other words, all income data recorded before, during, and after the year 1972 are adjusted to reflect that year's price levels. Hence, the terms "real" or "constant dollar" income are frequently used to describe the resulting data series. Since real income takes into account the effects of inflation, it presents a more realistic view of a region's economic growth. In Table 1, personal income data in both current and constant dollars for Nebraska and the United States are displayed. These historical series cover the period from 1960 through 1981, and are the most recent data received from the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce.

From 1960 through 1981, real personal income in Nebraska increased 102 percent. In addition, year-to-year percentage changes in real income were computed, and the average (mean) increase over this twenty-two year time span was 3.5 percent, with an associated standard deviation of 4.6 percent.[1] For the nation as a whole, real income increased 112 percent. The year-to-year average increase was 3.7 percent, with a standard deviation of 1.8 percent. Comparatively speaking, the larger measure of dispersion associated with the annual changes in Nebraska personal income indicates a lesser degree of stability in the growth of state income. This instability is evident from the historical growth trends of real personal income for Nebraska and the United States illustrated in Figure 1 (p. 2). The growth of real Nebraska income is more erratic than that for the entire nation, and this is due primarily to the volatility of the state's (continued on page 2)

[1] In this case, the standard deviation is a measure of dispersion of the annual percentage changes about the mean change over the time period under consideration (1960-1981). The greater this measure, the greater the degree of dispersion or variability of the data about the mean.

Table 1
PERSONAL INCOME FOR NEBRASKA AND THE UNITED STATES
1960-1981

Year	Nebraska Income (millions of $)	Nebraska Income (millions of 1972 $)	U.S. Income (billions of $)	U.S. Income (billions of 1972 $)
1960	2,846	4,142	402.3	585.6
1961	2,913	4,202	417.8	602.6
1962	3,159	4,474	443.6	628.2
1963	3,265	4,556	466.2	650.5
1964	3,364	4,623	499.2	686.0
1965	3,761	5,058	540.7	727.1
1966	4,040	5,263	588.2	766.3
1967	4,238	5,360	630.0	796.9
1968	4,528	5,486	690.6	836.7
1969	5,248	6,047	754.7	869.6
1970	5,578	6,100	811.1	886.9
1971	5,974	6,222	868.4	904.5
1972	6,785	6,785	951.4	951.4
1973	8,104	7,668	1,065.2	1,007.9
1974	8,278	7,203	1,168.6	1,016.9
1975	9,310	7,415	1,265.0	1,007.5
1976	9,618	7,280	1,391.2	1,053.1
1977	10,489	7,501	1,538.0	1,099.9
1978	11,832	7,885	1,721.8	1,147.5
1979	13,672	8,400	1,943.8	1,194.2
1980	14,300	8,063	2,160.2	1,218.0
1981	16,234	8,381	2,404.1	1,241.1

Source: Bureau of Economic Analysis of the U.S. Department of Commerce and Bureau of Business Research calculations.

(continued from page 1) agricultural sector. Farm income levels are greatly influenced by highly variable factors such as weather conditions, commodity prices, production expenses, and inventory changes, to name a few. Consequently, farm income can fluctuate dramatically over relatively short time spans. For example, real farm income in Nebraska declined 67 percent in 1980, and then increased 151 percent the following year. During the past two decades, farm income has accounted for as much as 16 percent of total Nebraska income. Consequently, large fluctuations in this component have a significant impact on the total. Figure 2 illustrates the growth of Nebraska farm and nonfarm income in real terms from 1970 on. The income data are indexed so that they reflect 1972 levels. It is clear from Figure 2 that farm and nonfarm income have not established similar growth patterns over the years. For nonfarm income, the long-term trend is upward, and the series is fairly stable, with no extreme fluctuations noted. For real farm income, however, the opposite is true. As indicated by Figure 2, the long-term trend (since 1970) for real farm income is downward, with extreme fluctuations occurring frequently. A fair interpretation of the graphical presentation would be that real Nebraska farm income is more volatile and, over the long run, has not maintained a positive growth pattern such as that exhibited by real nonfarm income.

Nebraska has experienced declines in real personal income during the past decade, as indicated by the data in Table 1 and illustrated in Figure 1. Real income increased each year from 1960 through 1973, and then declined sharply the next year. The 6 percent decrease recorded in 1974 was due primarily to a sharp drop in the level of real farm income (Figure 2). A decline in this same component was responsible for the decrease in real personal income that occurred in 1976. Declines in both real farm and nonfarm earnings were responsible for the latest 4 percent decrease in the level of income recorded in 1980. Although real income rebounded in 1981 (up 4 percent), the outlook for positive growth for the current year is less than optimistic. Personal income statistics for the first quarter of 1982 were recently released by BEA, and show a decline in nominal personal income for Nebraska. At annual rates, Nebraska personal income fell from $16,883 million in the fourth quarter of 1981 to $16,810 million in the first quarter of 1982, a 0.4 percent decline. In real terms, state personal income for the first quarter of 1982 declined 1.7 percent. If farm prices remain at their current low levels and unemployment remains high, Nebraska could suffer another decline in real personal income for all of 1982.

NONFARM PARTICIPATION INCOME

Nonfarm participation income represents the earnings of all individuals not exclusively involved with activities of the farm sector. In an agricultural state like Nebraska, however, there exists a strong interrelationship between the farm sector and the so-called nonfarm industries. For instance, agriculturally related activities such as food processing and farm implement production are included in the manufacturing sector. It is virtually impossible to filter out the effects of agriculture on the nonfarm sectors, and vice versa. Movement of real farm and nonfarm income over time supports this contention. Generally, when agriculture prospers, the nonfarm sectors prosper. From 1960 through 1981, real nonfarm income increased 99 percent, at an average annual change of 3.3 percent. The associated measure of dispersion for nonfarm income indicates more stability than for total real income. As illustrated in Figure 2, real nonfarm income has declined during the last two consecutive years (1980 and 1981). This downward trend could continue if the farm sector continues to suffer from low commodity prices, high production costs, and the like. Table 2 lists nonfarm participation income (earnings) in both current and real dollars for the years 1960 through 1981.

Over the years, percentage shares of nonfarm participation income by industrial sector have changed. Table 3 presents the percentage composition of nonfarm income by industry for each of the years 1960 through 1981. To some, the original data in current dollars may be of value. To convert the percentages in

Figure 1
REAL NEBRASKA PERSONAL INCOME AND REAL U.S. PERSONAL INCOME
AS A PERCENT OF 1972 LEVELS

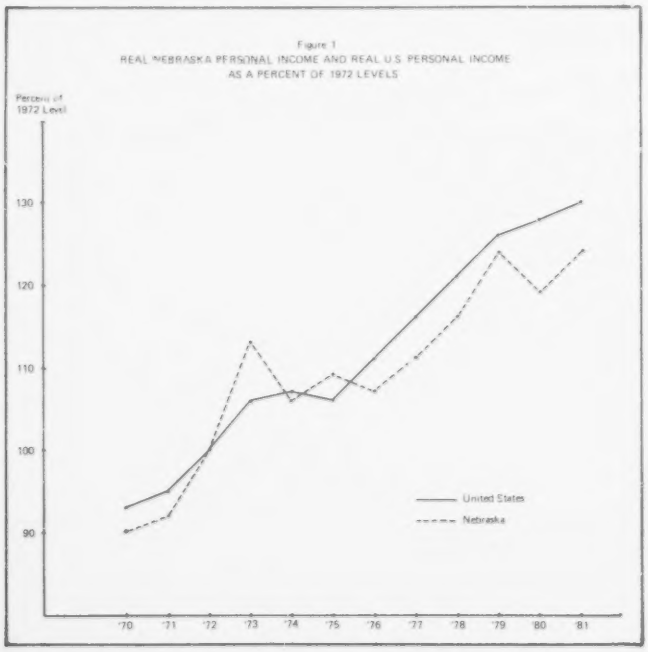


Figure 2
REAL NONFARM AND FARM INCOME FOR NEBRASKA
AS A PERCENT OF 1972 LEVELS

Table 2
NEBRASKA FARM AND NONFARM
PARTICIPATION INCOME
1960-1981

Year	Farm Income (millions of $)	Farm Income (millions of 1972 $)	Nonfarm Income (millions of $)	Nonfarm Income (millions of 1972 $)
1960	349	505	1,995	2,748
1961	286	391	2,084	2,851
1962	400	540	2,185	2,949
1963	360	519	2,253	3,004
1964	285	427	2,380	3,136
1965	465	633	2,488	3,227
1966	542	671	2,664	3,368
1967	447	598	2,873	3,521
1968	389	501	3,132	3,698
1969	601	709	3,502	3,948
1970	547	660	3,790	4,080
1971	589	697	4,042	4,163
1972	808	808	4,448	4,448
1973	1,332	844	4,934	4,753
1974	793	528	5,462	4,795
1975	1,183	814	5,892	4,706
1976	579	405	6,640	5,049
1977	592	411	7,233	5,196
1978	820	465	8,062	5,414
1979	1,135	565	9,097	5,633
1980	356	184	9,876	5,580
1981	884	461	10,614	5,477

Source: Bureau of Economic Analysis of the U.S. Department of Commerce and Bureau of Business Research calculations.

Table 3 to the raw income data, multiply these percentages (in decimal form) by total nonfarm income in current dollars as given in Table 2. For example, construction income in current dollars for 1981 would be computed as follows:

10,614 -- total 1981 nonfarm income in millions of current dollars (Table 2)
x .0563 -- construction's 1981 percentage share of total nonfarm income (Table 3)
= 597.57 -- 1981 construction income in millions of current dollars

When rounded to the nearest whole number, the resulting figure is that reported by BEA.

The data in Table 3 show that construction, trade, and mining have declined in their shares of nonfarm participation income during the interval from 1960 through 1981. The current shares of nonfarm income for manufacturing; transportation, communications, and utilities; and government are at about the same levels as they were during the early 1960s. Of these three sectors, government's share of income has fluctuated the greatest, reaching a high of 20.95 percent in 1970 and falling as low as 17.94 percent in 1960. The two remaining nonagricultural sectors—finance, insurance, and real estate, and services—have increased their shares of nonfarm income since 1960. For the services sector, the increase amounts to more than three percentage points gained steadily over the years. This is indicative of the transition from a goods-producing economy to a services-oriented economy that has occurred in the United States since the end of World War II. The services-producing sector consists of the following industries: wholesale and retail trade; transportation, (continued on page 6)

Table 3
PERCENTAGE COMPOSITION OF NEBRASKA NONFARM PARTICIPATION INCOME
IN CURRENT DOLLARS
1960-1981

Year	Construction	Manufacturing	Trade	Services	TCU*	FIRE**	Mining	Government	Ag., For., Fish., Other
1960	8.72	18.00	22.96	13.58	11.38	6.62	.80	17.94	NA
1961	8.69	18.09	22.60	13.77	10.89	6.72	.77	18.47	NA
1962	8.24	18.12	22.29	13.82	11.12	6.86	.64	18.90	NA
1963	8.17	17.53	22.33	13.94	10.87	6.97	.58	19.62	NA
1964	7.77	17.77	22.14	14.20	10.63	7.10	.50	19.87	NA
1965	7.96	17.52	22.19	14.39	10.65	7.07	.48	19.74	NA
1966	7.92	18.36	22.18	14.90	10.40	6.91	.45	18.88	NA
1967	7.73	19.00	21.96	15.35	9.95	6.89	.42	18.69	NA
1968	7.69	19.22	21.58	15.20	9.87	6.86	.38	19.19	NA
1969	7.97	18.96	21.22	15.48	9.48	6.57	.37	19.42	.54
1970	7.65	18.18	20.92	15.30	9.68	6 44	.37	20.95	.50
1971	7.50	17.66	20.81	15.41	9.90	6.63	.27	21.33	.49
1972	7.85	17.92	20.48	15.40	10.09	6.68	.34	20.75	.49
1973	7.90	17.90	20.82	15.46	10.30	6.47	.34	20.31	.51
1974	7.82	17.98	21.18	15.34	10.51	6.26	.57	19.81	.53
1975	7.60	16.96	21.66	15.61	10.20	6.47	.46	20.54	.51
1976	8.04	17.24	21.24	15.63	10.54	6.69	.50	19.68	.44
1977	8.10	17.18	20.89	15.48	10.70	7.02	.48	19.67	.46
1978	8.14	17.38	20.23	15.69	11.26	7.16	.36	19.31	.46
1979	7.52	17.72	20.36	15.97	11.62	7.16	.41	18.79	.46
1980	6.48	17.68	20.54	16.69	11.51	7.44	.44	18.74	.48
1981	5.63	17.71	20.71	16.86	11.72	7.47	.42	18.98	.50

*Includes Transportation, Communication, and Public Utilities.
**Includes Finance, Insurance, and Real Estate.
NA - Not available.

Source: Bureau of Economic Analysis of the U.S. Department of Commerce and Bureau of Business Research calculations.

Review and Outlook

Output fell 1.3% in May 1982 according to the Bureau of Business Research's net physical volume index. Despite the monthly decline, the index is up about 1% from year-ago levels. Economic activity was weak in the state during the third and fourth quarters of 1981, recovered modestly during the first quarter of 1982, but has retreated again during the second quarter of 1982.

The agriculture component of the state's overall output index declined 6.5% April-May 1982. Actual cash receipts from farm marketings were $675 million in May, $28 million more than in April. May 1982 cash farm marketing receipts were $245 million more than in May 1981.

Prices received by Nebraska farmers and ranchers increased 4.8% April-May. Nebraska prices received were 0.8% higher in May 1982, slightly above year-ago levels. For once, prices received by Nebraska farmers and ranchers were somewhat better than the U.S. prices. Prices received nationally increased 1.6% April-May 1982, but were 2.7% lower in May 1982 when compared with one year prior.

The nonagriculture component of the Nebraska economy declined 0.2% on a month-to-month basis. Construction and manufacturing continued to decline, while the distributive trade and government sectors recorded modest increases.

The Bureau's index of economic activity for the construction industry continues to decline. On a month-to-month basis the index was down 6.5%. The index stood (continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

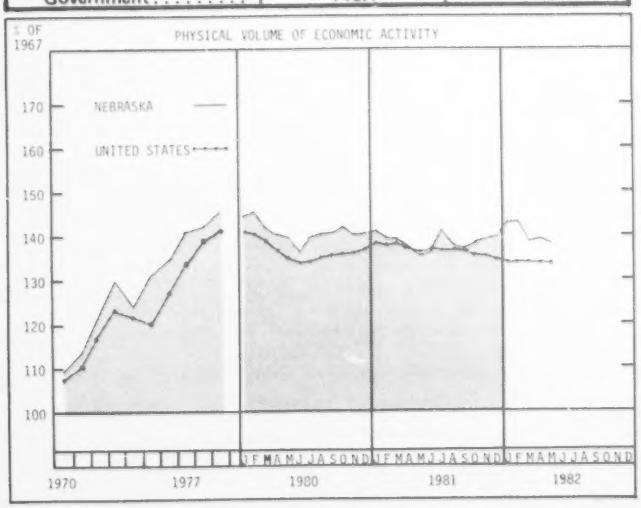
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

May 1982	Current Month as Percent of Same Month Previous Year		1982 Year to Date as Percent of 1981 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	107.3	103.7	105.3	103.9
Agricultural	168.9	125.6	145.2	112.9
Nonagricultural	100.7	103.1	100.3	103.6
Construction	63.2	96.5	68.6	93.1
Manufacturing	85.4	92.7	93.3	96.2
Distributive	106.2	106.8	102.6	106.3
Government	110.7	110.9	110.6	111.0
Physical Volume	101.9	97.9	100.9	97.6
Agricultural	167.6	129.1	153.8	120.5
Nonagricultural	94.9	97.0	94.4	96.9
Construction	60.4	92.2	65.8	89.2
Manufacturing	83.8	91.1	90.9	93.0
Distributive	99.5	100.1	95.7	99.2
Government	101.7	98.6	101.9	98.0

2. CHANGE FROM 1967

Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	378.7	363.3
Agricultural	435.9	394.5
Nonagricultural	369.9	362.3
Construction	187.5	303.2
Manufacturing	321.4	293.3
Distributive	398.7	404.9
Government	403.2	367.7
Physical Volume	137.9	134.0
Agricultural	166.4	158.4
Nonagricultural	133.5	133.2
Construction	56.0	90.5
Manufacturing	134.6	120.1
Distributive	138.9	141.0
Government	146.1	147.5



3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)

Region Number and City	City Sales*	Sales in Region*	
	May 1982 as percent of May 1981	May 1982 as percent of May 1981	Year to date'82 as percent of Year to date'81
The State	91.8	93.3	95.0
1 Omaha	90.2	92.8	97.7
Bellevue	91.2		
2 Lincoln	91.1	92.9	95.6
3 So. Sioux City	93.0	93.9	91.0
4 Nebraska City	99.9	94.0	92.2
5 Fremont	89.1	93.5	92.6
Blair	94.4		
6 West Point	92.3	94.5	95.9
7 Falls City	85.7	90.4	95.2
8 Seward	83.0	90.5	92.2
9 York	101.6	95.6	93.3
10 Columbus	89.3	89.4	90.2
11 Norfolk	87.0	87.4	91.1
Wayne	83.3		
12 Grand Island	91.7	99.0	89.7
13 Hastings	91.9	96.9	89.3
14 Beatrice	90.5	92.1	91.0
Fairbury	99.9		
15 Kearney	94.1	94.9	94.5
16 Lexington	103.8	97.9	96.8
17 Holdrege	93.2	94.8	95.2
18 North Platte	92.1	92.4	88.4
19 Ogallala	96.4	88.1	88.9
20 McCook	94.6	92.5	92.3
21 Sidney	106.9	97.7	96.1
Kimball	85.2		
22 Scottsbluff/Gering	81.0	82.2	87.8
23 Alliance	81.9	87.0	88.0
Chadron	82.6		
24 O'Neill	97.8	81.0	86.6
25 Hartington	86.4	91.7	92.4
26 Broken Bow	79.8	86.6	89.0

*State totals include sales not allocated to cities or regions. The year-to-year ratios for city and region sales may be misleading because of changes in the portion of unallocated sales. Region totals include, and city totals exclude, motor vehicle sales. Sales are those on which sales taxes are collected by retailers located in the state. Compiled from data provided by Nebraska Department of Revenue.

1982 YEAR TO DATE AS PERCENT OF 1981 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS

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(continued from page 4)

at 56 in May 1982 (1967=100) and was well below the level for May 1981 of 92.6. With the exception of insignificant increases in December 1981 and January 1982, the construction index has declined month after month since peaking at 98.4 in February 1981.

Output as measured by the Bureau's index for Nebraska's manufacturing sector also declined in May. The month-to-month decline was 5.4%, one of the largest decreases during the past three years. This index stood at 134.6 in May 1982 (1967=100) compared with a value of 160.6 in May 1981 and a reading of 166.5 in May 1980. The index indicates that manufacturing sector output declined by nearly one-sixth since September 1981.

The distributive trade sector's output climbed 1.7% on a month-to-month basis. Despite this increase, this component of the index remains slightly below year-previous levels and has changed little during the past year.

The government component of the index increased 0.2% April-May 1982. This component of the index is about 2% above its one year previous level and identical with the May 1980 reading.

Nebraska retail sales declined 3.1% on a dollar volume basis in May 1982 compared with one year previous. Total retail sales were $768 million (rounded) in May 1982 compared with $592 million one year ago. When adjusted for price changes, total retail sales were down 6.7% on a year-to-year basis.

For the first time in many months, motor vehicle sales did better than nonmotor vehicle sales. Motor vehicle sales were up 12.9% on a dollar volume (unadjusted for price changes) in May 1982 compared with May 1981. Actual motor vehicle sales were $81 million in May 1982 compared with $71 million one year ago.

Nonmotor vehicle sales declined 4.7% on a year-to-year basis. Nonmotor vehicle sales were $687 million in May 1982 compared with $721 million in May 1981.

The commodity component of the Consumer Price Index continues to reflect a slowdown in the rate of inflation, increasing only 3.8% May 1981-May 1982. The overall Consumer Price Index, which measures price changes on all items, increased more rapidly over this same period, recording a 7.1% increase.

On a year-to-date basis, retail sales adjusted for price changes are down approximately 8%. Communities which have recorded real increases in retail sales include Lexington, where sales are up 3.8%; Sidney, 6.9%; and York, 1.6%. Retail sales at Nebraska City and Fairbury nearly equaled year-previous levels.

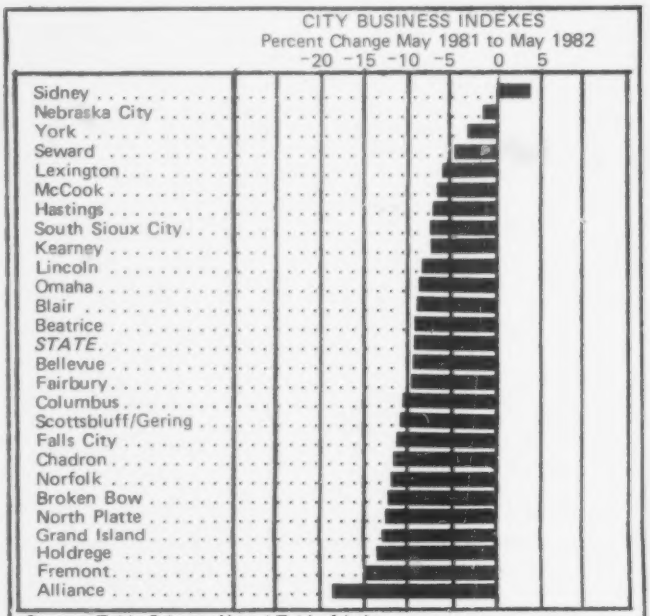
Sidney was the only Nebraska community to record a gain in its city business index. Nebraska City, York, and Seward recorded declines in their respective city business indexes, but these declines were limited to about half the average decline of -9.4%.

D. E. P.

5. PRICE INDEXES

May 1982	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	287.1	106.7	107.2
Commodity component	261.5	103.8	104.1
Wholesale Prices	298.6	101.5	104.3
Agricultural Prices			
United States	249.0	97.3	93.7
Nebraska	262.0	100.8	94.6

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.



Source: Table 3 (page 4) and Table 4 below.

4. MAY CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	93.4	55.8	104.8
Alliance	86.1	40.0	125.8
Beatrice	96.8	46.2	114.3
Bellevue	94.2	53.2	116.9
Blair	91.7	52.9	124.6
Broken Bow	94.0	89.1	110.1
Chadron	95.0	66.6	120.7
Columbus	91.4	68.8	93.8
Fairbury	95.2	21.4	101.9
Falls City	93.0	68.5	89.5
Fremont	92.1	25.1	96.7*
Grand Island	91.9	32.9	96.3
Hastings	95.7	72.0	103.1
Holdrege	92.7	21.9	121.7
Kearney	94.3	65.0	116.7
Lexington	92.8	43.0	94.4
Lincoln	93.6	64.5	102.1
McCook	89.1	109.4	114.3
Nebraska City	91.9	146.5	98.2
Norfolk	91.9	57.7	87.8
North Platte	94.4	27.2	173.9
Omaha	94.2	64.0	96.4
Scottsbluff/Gering	95.4	98.3	130.2
Seward	92.3	356.1	93.9
Sidney	93.6	193.4	130.5
So. Sioux City	95.0	67.6	103.1
York	91.8	87.4	199.1

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

(continued from page 3)

communications, and utilities; finance, insurance, and real estate; services; and government. The goods-producing sector consists of construction, mining, and manufacturing. During 1960, the goods-producing sector and the services-producing sector had shares of nonfarm income of 27.5 percent and 72.5 percent, respectively. By 1981, the share for the goods-producing sector dropped to 23.8 percent, while the services-producing sector increased its share of nonfarm income to 76.2 percent.

FARM INCOME

The final component of participation income to be examined in detail is farm income. Nebraska farm income data in both current and constant dollars are presented in Table 2. As indicated previously, the behavior of farm income is subject to highly variable factors and tends to fluctuate dramatically. An illustration of how the Bureau of Economic Analysis measures farm income is helpful in explaining the extreme fluctuations exhibited by this important component of Nebraska income.

In Table 4, the derivation of farm income by BEA is presented for the years 1978, 1979, and 1980. Farm income statistics that are usually reported by BEA comprise the final line of Table 4. From 1978 to 1979, farm income in current dollars increased 38 percent, and then declined sharply in 1980, down 69 percent.

Table 4
DERIVATION OF FARM INCOME FOR NEBRASKA
1978, 1979, AND 1980

	millions of $		
	1978	1979	1980
Total cash receipts and other income	5,623	6,901	7,025
Less: total production expenses	5,089	6,220	6,731
Realized net income	534	681	294
Plus: value of inventory change	148	299	-96
Total net income including corporate farms	682	980	198
Less: corporate farms	22	33	53
Total net farm proprietors' income	660	946	145
Plus: farm wages and perquisites	156	184	206
Plus: farm other labor income	4	5	5
Total farm labor and proprietors' income	820	1,135	356

Source: Bureau of Economic Analysis of the U.S. Department of Commerce.

The primary reasons for the 1979 increase were a doubling of the inventory change from the level of the previous year and a slightly greater increase in cash farm marketings compared to that recorded for production expenses. The large decline in farm income for 1980 was mainly due to the combination of a negligible increase in cash receipts and a negative inventory change. Farm income is subject to frequent revisions, and these can be extreme. Often, revisions are due to an inventory change adjustment.

Compared to nonfarm income, real farm income has not fared well during the past decade, illustrated graphically in Figure 2. Production expenses have increased at a faster rate than cash receipts and other income. With the exception of one year (1974), production expenses have increased each year over the past decade at an average annual growth rate of 12.3 percent (Table 5). Cash receipts and other income have also increased over the period, but declined during three consecutive years (1974, 1975, and 1976). The average annual growth rate for cash receipts was 10.6 percent. This disparity in growth rates for cash receipts and farm production expenses is but one of the reasons why farmers are experiencing a long-term decline in real income. C. L. B.

Table 5
FARM PRODUCTION EXPENSES
AND CASH FARM MARKETINGS PLUS OTHER INCOME
FOR NEBRASKA
1970-1980

Year	Production Expenses (millions of $)	% Change	Cash Marketings + Other Income* (millions of $)	% Change
1970	2,216	---	2,763	---
1971	2,351	6.09	2,788	0.90
1972	2,925	24.42	3,587	28.66
1973	3,799	29.88	4,770	32.98
1974	3,475	-8.53	4,660	-2.31
1975	3,541	1.90	4,483	-3.80
1976	3,961	11.86	4,428	-1.23
1977	4,266	7.70	4,639	4.77
1978	5,089	19.29	5,623	21.21
1979	6,220	22.22	6,901	22.73
1980	6,731	8.22	7,025	1.80

*Includes other sources of income such as government payments, imputed income, and rent received.

Source: Bureau of Economic Analysis of the U.S. Department of Commerce and Bureau of Business Research calculations.

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Business in Nebraska

Prepared by the Bureau of Business Research
College of Business Administration

60 Years of Service

MEDIAN FAMILY INCOME, 1979

Income data from the 1980 census are available for the state, counties, cities and villages, and unincorporated areas. The third-count census tape includes median and mean income measures for households, families, and unrelated individuals. Per capita income and various poverty income measures are also available on this third-count tape. This article focuses upon median family income.

Median family income for the state of Nebraska in 1979 was $19,144. The median income is the statistic which divides the distribution of all family incomes into two equal groups. One family group has incomes above the median while the other family group has incomes below the median. Income data are available for 1979 since the census was conducted in April of 1980. The income question was a sample question, which means that one family in five was asked to provide information on family income. In compiling data on family income, the incomes of all family members 14 years and older are summed and treated as a single amount.

The census reports what it calls "money income." Money income is the sum of wages and salaries, nonfarm net self-employment income (entrepreneurial income), farm net self-employment income, social security or railroad retirement income, public assistance or welfare income, and all other income. The income statistic represents the amount of income regularly received by families before deductions for personal income taxes, social security payments, deductions for medical care, union dues, or other items which are deducted from gross income. Income from all other sources include money incomes received from interest, dividends, net income (or loss) from property rentals, unemployment compensation benefits, workmen's compensation benefits, royalties, alimony or child support, nonservice scholarships and fellowships, and subsistence allowances for persons participating in special public training programs.

Median family income of Nebraska families increased 124 percent over the decade 1969-79. Nebraska family incomes increased faster than the national average during the 1970s. Based upon preliminary information, median family income of all United States families increased 102 percent over the decade ($9,867 to $19,908). Despite the larger relative gain, Nebraska's median family income was below the United States average (96 percent of the national average).

Median family income for Nebraska's 93 counties is summarized in Table 1 (page 2). The information is provided for 1969 and 1979 median family income and the percentage change over the decade. Prices (as measured by the Consumer Price Index) increased approximately 98 percent over the decade, which suggests that the average Nebraska family incurred a gain in real income of approximately 26 percent. For the purpose of comparison with neighboring states, median family income in Kansas in 1979 was $19,575; in Missouri, $18,746; in Iowa, $20,243; in South Dakota, $16,431; in Minnesota, $21,217; in Wyoming, $22,497; and in Colorado, $21,485.

As expected, median family incomes were higher in the metropolitan areas of the state. Twelve counties had median family incomes above the state average of $19,144. Douglas County had the top median family income of $21,629, followed closely by Sarpy at $21,569. Lancaster ranked third with a median family income of $21,383, Lincoln ranked fourth at $21,078, and Box Butte ranked fifth at $20,833. The influence of the railroads was undoubtedly important in boosting Lincoln and Box Butte counties' median family incomes. Box Butte County income ranked 36th in 1969.

Other counties with median family incomes above the state average include Washington, $20,556; Platte, $20,282; Hall, $20,144; Dodge, $19,727; Cass, $19,562; Madison, $19,454; and Dakota, $19,427. Counties with median family incomes above the state average were either associated with one of the metropolitan areas of the state or, in the case of counties such as, for example, Madison, Platte, Hall, Lincoln, and Box Butte, were major regional trade centers. The shaded areas in Map 1 (page 3) identify counties where median family income was above the state average.

Another important measure is the rate of growth of median family income. As noted above, median family income increased an average of 124 percent, 1969-79. On average, Nebraska families did somewhat better than the typical United States family in terms of income growth. At the end of the decade, family income in Nebraska was 96 percent of the U.S. average.

Data in Table 1 also set out the county-by-county percentage change in median family income. Any increase of 98 percent or more indicates that families recorded a gain in real income. Nearly 95 percent of Nebraska's counties recorded a gain in real family income. Any county recording an increase of less than 98 percent suffered a deterioration in real family income. Counties where income failed to keep pace with inflation include Banner, Blaine, Grant, Hooker, Kimball, and Logan. These counties are relatively sparsely populated and almost entirely dependent upon agriculture income. Sparse population means that a change in the income status of only a few families can substantially impact the median. Furthermore, when dealing with agriculture-related incomes, it is always possible that 1969 or 1979 could have been an abnormally good or abnormally poor year for (continued on page 6)

Table 1

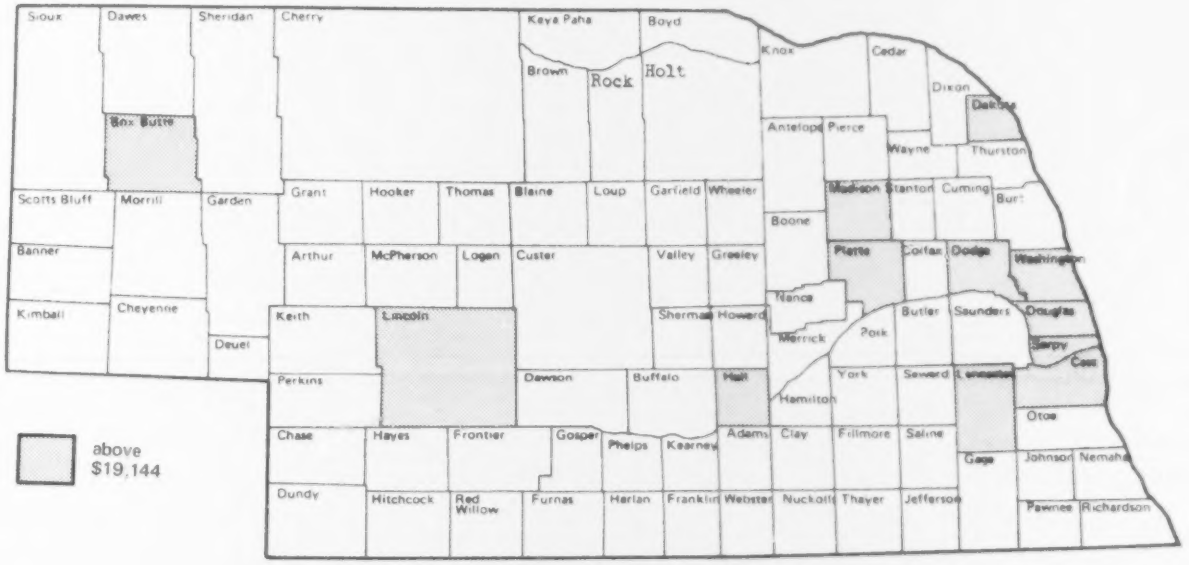
MEDIAN FAMILY INCOME

	1979	1969	Percent Increase	Rank 1979	Rank 1969
Adams	$18,852	$8,811	114	15	9
Antelope	12,949	6,194	109	82	71
Arthur	14,125	5,225	170	69	89
Banner	12,109	8,225	47	90	18
Blaine	12,083	6,500	86	91	63
Boone	13,833	6,713	106	74	56
Box Butte	20,833	7,600	174	5	36
Boyd	10,565	4,683	126	93	92
Brown	13,232	5,814	128	79	82
Buffalo	18,332	7,756	136	22	30
Burt	15,446	7,546	105	54	37
Butler	16,613	6,489	156	38	65
Cass	19,562	7,813	150	10	28
Cedar	14,184	5,526	157	67	87
Chase	15,465	6,741	129	53	54
Cherry	16,270	7,417	119	42	40
Cheyenne	17,604	7,473	136	26	38
Clay	16,587	6,836	143	39	49
Colfax	15,905	7,088	124	45	42
Cuming	17,375	7,107	144	29	41
Custer	15,475	6,887	125	52	47
Dakota	19,426	8,557	127	12	13
Dawes	16,977	6,411	165	34	66
Dawson	18,538	8,076	130	17	22
Deuel	16,295	7,798	109	41	29
Dixon	14,525	7,012	107	62	43
Dodge	19,727	8,897	122	9	7
Douglas	21,629	10,419	108	1	1
Dundy	14,407	6,793	112	64	52
Fillmore	16,531	7,857	110	40	26
Franklin	14,053	6,020	133	71	79
Frontier	15,708	6,290	150	49	68
Furnas	13,925	6,357	119	72	67
Gage	17,050	7,631	123	33	34
Garden	15,503	6,065	156	51	75
Garfield	13,719	6,049	127	75	76
Gosper	15,203	6,810	123	55	51
Grant	14,167	7,905	79	68	25
Greeley	11,902	5,691	110	92	84
Hall	20,144	8,905	126	8	6
Hamilton	18,364	7,594	142	19	5
Harlan	14,369	6,489	121	65	64
Hayes	12,500	5,100	145	86	91
Hitchcock	14,234	6,199	130	66	70
Holt	13,910	6,034	131	73	77
Hooker	13,056	7,646	71	81	33
Howard	16,038	6,542	145	43	62
Jefferson	15,930	6,664	139	44	58
Johnson	14,733	6,719	119	60	55
Kearney	18,313	8,497	116	23	15
Keith	$18,347	$8,862	107	21	8
Keya Paha	12,542	3,956	217	84	93
Kimball	17,335	9,116	90	30	4
Knox	13,067	5,382	143	80	88
Lancaster	21,383	9,777	119	3	3
Lincoln	21,078	8,210	157	4	19
Logan	12,500	6,984	79	85	44
Loup	13,625	6,548	108	77	60
McPherson	14,479	6,033	140	63	78
Madison	19,545	8,292	136	11	16
Merrick	17,489	7,674	128	28	31
Morrill	12,752	5,923	115	83	81
Nance	13,504	6,542	106	78	61
Nemaha	16,758	8,191	105	36	20
Nuckolls	15,841	6,898	130	47	46
Otoe	17,922	8,027	123	25	24
Pawnee	12,130	5,572	118	89	85
Perkins	16,753	8,804	90	37	11
Phelps	18,961	8,505	123	13	14
Pierce	15,126	5,972	153	57	80
Platte	20,282	8,615	135	7	12
Polk	15,818	7,452	112	48	39
Red Willow	18,906	7,612	148	14	35
Richardson	14,590	6,818	114	61	50
Rock	14,844	5,709	160	59	83
Saline	18,784	7,655	145	16	32
Sarpy	21,569	10,209	111	2	2
Saunders	18,361	7,838	134	20	27
Scotts Bluff	17,076	8,072	112	31	23
Seward	18,253	8,171	123	24	21
Sheridan	17,066	6,907	147	32	45
Sherman	12,251	6,134	100	87	73
Sioux	15,575	6,167	153	50	72
Stanton	17,517	6,851	156	27	48
Thayer	15,885	6,692	137	46	57
Thomas	14,850	6,655	123	58	59
Thurston	14,095	6,074	132	70	74
Valley	13,648	6,222	119	76	69
Washington	20,556	8,808	133	6	10
Wayne	16,769	6,744	149	35	53
Webster	15,150	5,544	173	56	86
Wheeler	12,237	5,155	137	88	90
York	18,506	8,263	124	18	17
Nebraska	$19,144	$8,564	124		

Map 1

MEDIAN FAMILY INCOME ABOVE STATE AVERAGE

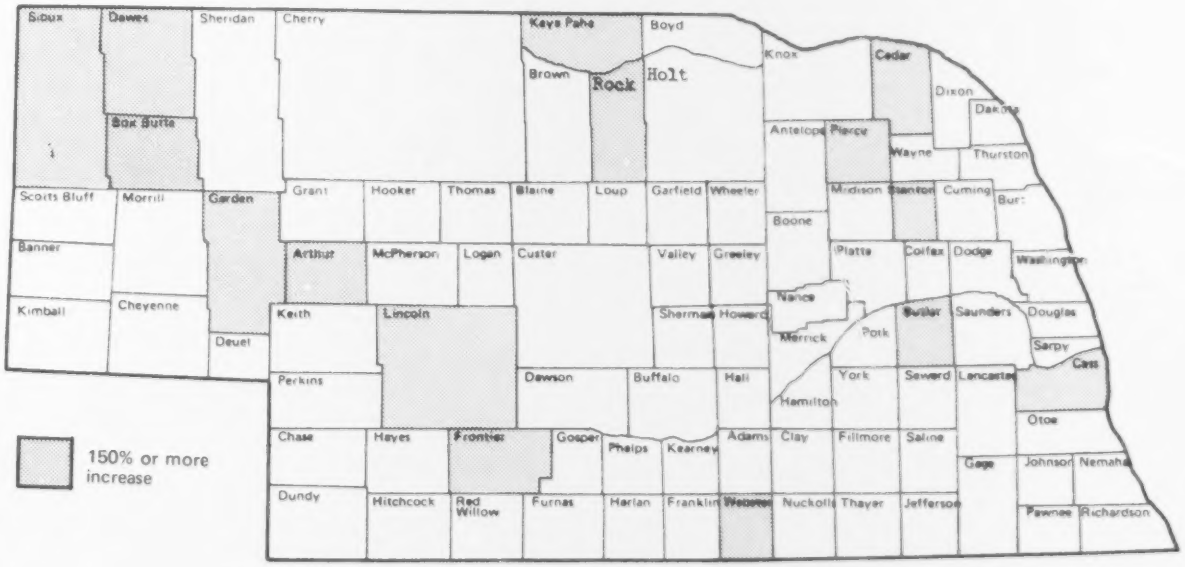
1979



Map 2

INCREASES IN PERSONAL INCOME OF 150 PERCENT OR MORE

1969-79



Review and Outlook

Nebraska's net physical volume increased 1.5% May-June. June was the first monthly increase in the Bureau of Business Research's net physical volume index since January 1982. Despite the increase in the overall index there are some disturbing trends in the Nebraska economy.

The increase in the state's economy was led by the agriculture sector. This component of the economy was up 18.5% on the strength of substantial increases in cash farm marketings. Cash farm marketings totaled $518 million in June. On a seasonally adjusted basis, this represents a 29% increase over May. Compared with June 1981, cash farm marketings in June 1982 were 45% above the earlier figure.

Nebraska's nonagriculture sectors declined 1.1% May-June 1982. Construction increased 2.9%, but the June 1982 reading for this component was two-thirds of the year's previous level.

Manufacturing recorded a 3.8% decline on a month-to-month basis. This index has displayed an almost constant deterioration from one year ago. The index stood at 129.7 in June 1982 (1967 = 100), approximately four-fifths of the June 1981 index value of 161.3.

The government and the distributive trade sectors of the index were little changed from the previous month. Government recorded a 0.3% increase, while the distributive trade sector recorded a 0.7% decrease. Compared with (continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes--see Table 5, page 5.

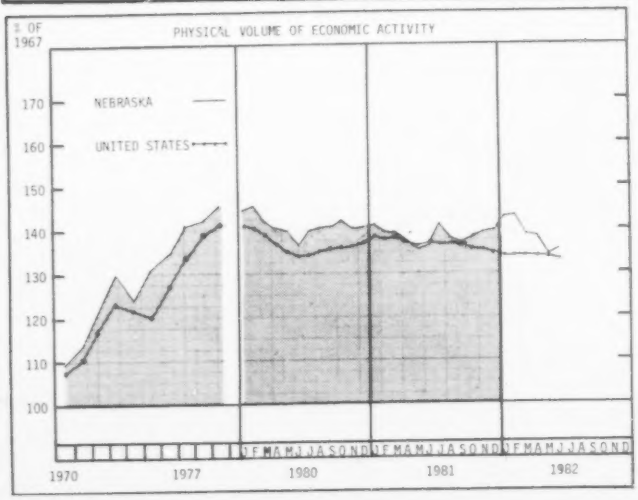
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

June 1982	Current Month as Percent of Same Month Previous Year		1982 Year to Date as Percent of 1981 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	105.2	102.0	104.6	103.4
Agricultural	141.0	109.4	138.5	108.9
Nonagricultural	100.9	101.8	100.4	103.3
Construction	70.7	96.9	68.9	91.6
Manufacturing	82.0	91.5	91.4	95.4
Distributive	106.7	105.9	103.3	106.4
Government	111.3	107.2	110.7	110.3
Physical Volume	100.0	96.6	100.1	97.3
Agricultural	146.5	112.3	146.5	115.6
Nonagricultural	94.6	96.1	94.4	96.8
Construction	67.6	92.6	66.1	87.7
Manufacturing	80.4	89.7	89.1	92.5
Distributive	99.7	98.8	96.3	99.2
Government	102.0	99.4	101.9	98.2

2. CHANGE FROM 1967

Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	375.0	363.1
Agricultural	408.5	370.5
Nonagricultural	369.7	362.9
Construction	192.9	306.5
Manufacturing	311.1	292.4
Distributive	400.6	405.9
Government	406.4	369.1
Physical Volume	135.7	132.9
Agricultural	158.9	150.0
Nonagricultural	132.1	132.4
Construction	57.6	91.5
Manufacturing	129.7	119.3
Distributive	137.9	139.7
Government	146.5	148.1

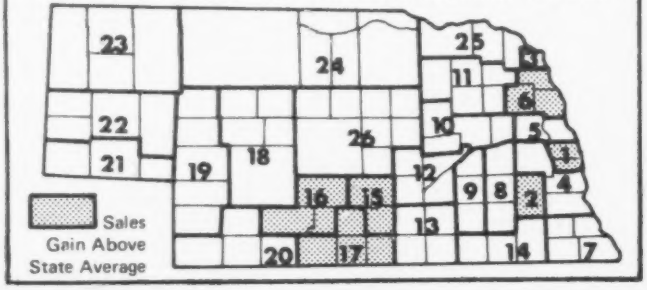


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)

Region Number and City	City Sales*	Sales in Region*	
	June 1982 as percent of June 1981	June 1982 as percent of June 1981	Year to date'82 as percent of Year to date'81
The State	90.1	92.7	94.6
1 Omaha	95.6	97.8	97.7
Bellevue	98.9		
2 Lincoln	91.0	94.3	95.3
3 So. Sioux City	84.3	87.5	90.4
4 Nebraska City	93.3	95.7	92.9
5 Fremont	92.8	98.3	93.6
Blair	102.3		
6 West Point	96.5	101.9	96.9
7 Falls City	86.7	90.9	94.2
8 Seward	94.0	96.6	93.0
9 York	100.4	97.6	94.1
10 Columbus	102.7	96.4	91.3
11 Norfolk	99.8	95.0	91.8
Wayne	86.1		
12 Grand Island	94.7	94.4	90.6
13 Hastings	88.7	93.1	90.0
14 Beatrice	97.3	99.2	92.4
Fairbury	96.1		
15 Kearney	105.0	104.2	96.3
16 Lexington	90.2	93.7	96.2
17 Holdrege	85.3	92.3	94.7
18 North Platte	98.9	99.4	90.4
19 Ogallala	101.7	91.8	89.5
20 McCook	90.9	94.6	92.7
21 Sidney	104.5	86.2	94.2
Kimball	64.6		
22 Scottsbluff/Gering	101.0	98.1	89.5
23 Alliance	87.2	91.2	88.6
Chadron	86.1		
24 O'Neill	94.2	91.2	87.5
25 Hartington	91.5	99.3	93.7
26 Broken Bow	77.6	89.8	89.2

*State totals include sales not allocated to cities or regions. The year-to-year ratios for city and region sales may be misleading because of changes in the portion of unallocated sales. Region totals include, and city totals exclude, motor vehicle sales. Sales are those on which sales taxes are collected by retailers located in the state. Compiled from data provided by Nebraska Department of Revenue.

1982 YEAR TO DATE AS PERCENT OF 1981 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



(continued from page 4)

year-previous levels, these two sectors have changed very little. The government sector is up 2% above June 1981 levels, while the distributive trade component is essentially unchanged from year-previous levels.

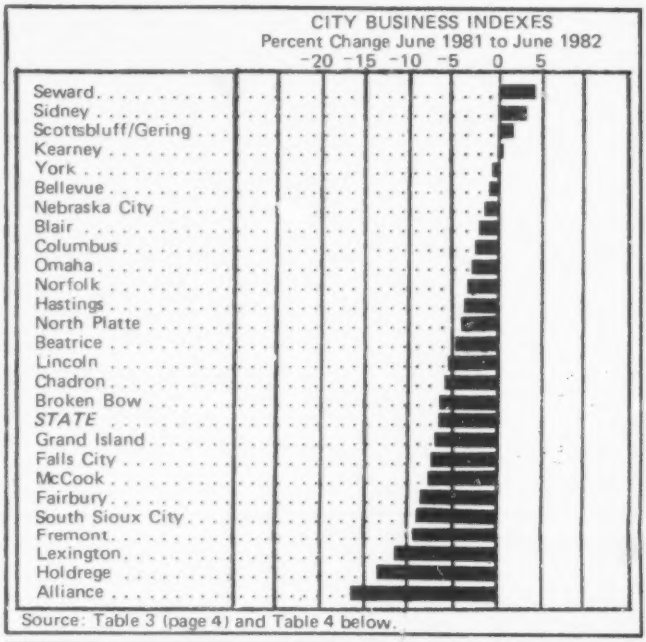
Retail sales were $806 million in June 1982, down from $831 million in June 1981—a decrease of 2.9%. Motor vehicle sales were up in June, while nonmotor vehicle sales were down. Motor vehicle sales totaled approximately $92 million for the month, up from $73 million in June 1981. Nonmotor vehicle sales were $715 million in June 1982, down from $758 in June 1981. On a price-adjusted basis, motor vehicle sales were up nearly 20%, while nonmotor vehicle sales were down 9.9%. Overall, retail sales were down 7.3% on a price-adjusted basis. Price adjustments were made using the commodity component of the Consumer Price Index. On a year-to-year basis, June 1981-June 1982, this component of the Consumer Price Index is up 4.7%.

Seward led all Nebraska communities on the city business index list with a 3.4% increase in June 1982. Seward was followed by Sidney, Scottsbluff-Gering, and Kearney. These were the only Nebraska communities to record a positive increase for the month.

Building activity in Seward seems to have been responsible for the increase in this community's index, while retail sales were up in Sidney. Kearney led all Nebraska communities with a price-adjusted 5% increase in retail sales. Sidney recorded a price-adjusted 4.5% increase in retail sales. Other communities with increases in real retail sales include Columbus, up 2.7%; Blair, up 2.3%; Ogallala, up 1.7%; Scottsbluff-Gering, up 1%; and York, up 0.4%.

An examination of information in Table 3 indicates that real retail sales are less than 90% of year-previous levels in several Nebraska trade centers. Omaha and Lincoln, the state's two largest retailing markets, were both below year-previous levels in real terms.

D. E. P.



Source: Table 3 (page 4) and Table 4 below.

4. JUNE CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	99.3	62.7	88.2
Alliance	92.3	23.3	123.5
Beatrice	101.8	39.2	100.8
Bellevue	101.2	80.5	81.2
Blair	98.0	63.1	NA
Broken Bow	100.1	184.5	106.5
Chadron	100.8	107.7	92.8
Columbus	95.5	67.5	94.5
Fairbury	99.7	22.3	90.5
Falls City	101.1	66.9	82.3
Fremont	97.3	33.9	95.9*
Grand Island	97.3	45.7	83.8
Hastings	101.0	119.7	86.5
Holdrege	97.3	28.5	92.0
Kearney	99.4	70.0	92.4
Lexington	95.7	30.3	NA
Lincoln	100.9	72.6	89.1
McCook	94.7	70.0	85.9
Nebraska City	98.3	170.1	72.3
Norfolk	96.2	67.9	84.6
North Platte	101.0	46.3	91.7
Omaha	101.2	71.3	85.5
Scottsbluff/Gering	100.4	113.1	104.1
Seward	100.8	325.8	91.6
Sidney	98.3	133.9	111.4
So. Sioux City	100.7	59.1	85.8
York	98.2	96.2	84.5

[1] As a proxy for city employment, total employment for the county in which a city is located is used.

[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES

June 1982	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	290.6	107.1	107.2
Commodity component	265.1	104.7	104.2
Wholesale Prices	299.4	101.6	103.8
Agricultural Prices			
United States	247.0	96.5	94.2
Nebraska	257.0	96.3	94.9

*Using arithmetic average of monthly indexes.

Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

(continued from page 1) the areas in question, making comparisons of limited value.

It is important to note that these two factors, small population base and dependence upon agriculture income, may contribute to substantial variations (either up or down) in income when making comparisons. In other cases, income may be relatively unaffected by these factors and counties with these characteristics may record income changes similar to other counties. In short, income tends to be less stable in the lightly populated areas where agriculture income is important.

Counties recording an increase of 150 percent or more in personal income are illustrated by the shaded areas in Map 2 (page 3). Fourteen counties recorded decade gains in income of more than 150 percent. Keya Paha led all counties with a gain of 217 percent, but once again the small-numbers phenomenon and dependence upon agriculture income must be taken into consideration. Median family income in Keya Paha County in 1969 was placed at $3,956, the lowest in Nebraska. At $12,542 in 1979 it was still well below the state median of $19,144, and ranked 84th among the state's counties.

Of the 14 counties recording gains of 150 percent or more in personal income, only 3 had 1979 incomes above the state's average. These 3 counties were Box Butte, which reported a median family income of 108.8 percent of the state's average; Lincoln County, which was 110 percent of the state's average; and Cass County, which was 102.2 percent of the state's average.

Characteristics of a predominant number of counties—although not all of those recording large income gains—were: sparsely populated and disproportionately dependent upon income from agriculture. Either of these factors alone can produce wide swings in income. When combined, the effect can occasionally be dramatic shifts in income.

Median family incomes in 1969 and 1979 are ranked in Table 1. A close examination of the information reveals considerable movement in the relative position of some Nebraska counties. Box Butte and Lincoln counties advanced, partly in response to the railroad boom. D. E. P.

THE BUREAU OF BUSINESS RESEARCH'S 60TH ANNIVERSARY

With the start of the academic year 1982/83, the Bureau of Business Research in the College of Business Administration celebrates its 60th anniversary. The Bureau of Business Research was established in 1922 soon after the creation of the College of Business Administration by act of the state legislature in 1919. Dean J. E. LeRossignol, first dean of the College of Business Administration, was very instrumental in the establishment of the Bureau of Business Research. The 1921 report of the Board of Regents recommended that a Bureau of Business Research be organized in the College of Business Administration. Dean LeRossignol stated: "In addition to the extention work, there is a fine opportunity for a Bureau of Business Research, along the lines of the AUBER Bureau, which has done important work. If such a Bureau were created in the University of Nebraska, it could carry on the research of great benefit to the businessmen and farmers of the state and incidentally of the entire midwest."[1]

The principal objective of the Bureau of Business Research is service to the state and region. The Bureau is responsible for:

- The development, storage, and dissemination of knowledge relevant to the business and economic conditions of the state in general and its regions, counties, and communities.
- Identification and solution of existing problems by combinations of research and education.
- Stimulation of theoretical and applied research by faculty and graduate students.
- Providing a practical learning experience for students in the areas of business and economics research.[2]

Although the Bureau has no formal teaching program for which credit is given, teaching is a very important Bureau function. Graduate and undergraduate students play an important role in the Bureau's program. In assisting staff researchers, students are exposed to data sources useful in making business decisions. Training in data sources is vitally important for the modern business person functioning in an age of electronic computers. Students with practical experience in data sources and analytical techniques gain valuable experience which they can apply during their careers.

[1] D. Switzer, *Fifty Year History of the Bureau of Business Research.*

[2] Ibid.

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